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FOR SECRETARY LAHOOD AND DELEGATION

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SUBJECT: FRANCE: SCENESETTER FOR SECRETARY LAHOOD VISIT

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¶1. (SBU) Mission France extends a warm welcome to you and your delegation. Your visit comes two years into President Nicolas Sarkozy's five-year term, a period marked by strong coordination between the U.S. and France on key strategic issues. Your interlocutors will likely make a case for dedicated very high-speed rail (VHSR) passenger networks using the latest technology, as opposed to a shared freight/passenger system with incremental upgrades to existing U.S. infrastructure. The French are anxious to understand the U.S. project selection process and the regulatory oversight for inter- and intra-state corridors. Transport Minister Bussereau will also be keen to share France's accomplishments in financing infrastructure and staying on the cutting edge in transportation technologies and environmental protection, as well as combining modes of transportation.

POLITICS  
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¶2. (SBU) Arguably the most pro-American French President since World War II, Sarkozy should be credited with making the U.S.-French bilateral relationship the best it has ever been. The politically robust government-to-government relations do not mean for Sarkozy, nevertheless, that being "allies" leads to across-the-board and automatic "alignment" with U.S. positions. President Sarkozy at times equates the health of the relationship with the strength of U.S.-French political and strategic cooperation in other parts of the world, rather than with the economic relationship. The trade and investment relationship is substantial, with 17 USD billion in exports to France and 29 USD billion French imports to the U.S. (2008). Recently, the new U.S. Administration has inspired popular support for the transatlantic relationship. An April poll found that 54 percent of the French think that Franco-American relations have improved following President Obama's visit to France for the NATO summit in Strasbourg. The press has complimented the President for bolstering the U.S. image, while contrasting him with President Sarkozy whose approval rate is at 36 percent.

¶3. (U) The global recession has not spared France. GDP is expected to contract by at least 3 percent in 2009. In response to the crisis, the GOF passed a 26 billion euro (USD 35 billion) stimulus package in February to help businesses improve their cash flow through tax measures, and boost infrastructure investments, including in rail. Globally, President Sarkozy helped launch the series of G20 summits, and has been pleased with cooperation with the United States in that forum.

ENVIRONMENT  
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¶4. (SBU) The environment is a signature issue for the Sarkozy government. One of his first initiatives was to create a "super-ministry" of sustainable development, consolidating the ministry-equivalents of energy, infrastructure, transportation and environment into a single entity. The goal was to internalize

environmental factors into decision-making on these policies. President Sarkozy has spoken of the need to rethink transportation policy to meet environmental challenges, including climate change, e.g. eco-taxes, increased investment in public transportation and eco-loans at zero interest to promote energy efficiency improvements in residential housing. (Note: France will host the a Major Economies Forum (MEF) on Energy and Climate in Paris the day of your arrival, following onto the one held in Washington, D.C. last month. End note.) As a presidential legacy project, Nicholas Sarkozy unveiled his "Grand Paris" project on April 29 which calls for urban and transport overhaul to expand Paris city limits and make it a more sustainable and eco-friendly metropolis. Beginning in 2012, the plan calls for construction of an automated, 90-mile metro line, and new and upgraded tramway, metro and suburban lines to alleviate mass transit congestion and integrate isolated suburbs. The GOF plan represents 35 billion euros (47 billion USD) in new funds from both public and private sources yet to be identified.

#### HIGH-SPEED RAIL -----

15. (SBU) Minister Bussereau and SNCF Group CEO Guillaume Pepy will make a strong case to compete for U.S. HSR development. Although keen on the Asian markets, Argentina, and possibly India, the French clearly have shown renewed interest in the United States in the wake of the USG's announced "Vision for HSR" and the Invest in America Act. French rail policy makers and companies are particularly interested in corridor development in California, Florida, and Texas. In your conversations, they will likely make a case for a dedicated very high-speed rail passenger network using the latest technology, as opposed to a shared freight/passenger system with incremental upgrades to existing U.S. infrastructure.

16. (SBU) SNCF is gearing up to compete with outside rail companies in 2010 as part of EU agreements. The government-owned French Rail Network (RFF) currently acts principally as a financial structure, delegating the majority of infrastructure management to the SNCF, but when competition opens up to EU countries in 2010, RFF is expected to build, maintain and renovate railway infrastructure on its own. SNCF CEO Guillaume Pepy, whom you will meet, has noted expansion and upgrade of freight services will also be a priority in the next decade and has targeted East European markets as he aspires to make SNCF a multimodal European group with rail at its center.

#### URBAN TRANSPORT -----

17. (SBU) The French are equally proud of their global urban transportation groups. Veolia is Europe's leading private public transport operator. Keolis, the subsidiary of the SNCF is a world player and Transdev, a leading operator of urban public transport systems in France and Europe and of tram services globally, is expanding its international activities. They will be eager to engage you on municipal transport plans in the United States, and your visit to Strasbourg will allow them to show you their solution to urban mobility while protecting the natural environment and promoting non-polluting means of transportation (tram, cycling, walking, electric vehicles). Future extensions of their tramway will be subsidized as part of France's economic recovery program. One extension (projected completion in 2014) will result in a tram link with Kehl, Germany (cross-border cooperation is a major thrust of Mayor Ries' administration).

#### OTHER TRANSPORTATION ISSUES -----

18. (SBU) Although your trip is focused on rail, other priorities for the French include aviation emissions and traffic control systems issues, and further opening of U.S. airlines to foreign investment under the current round of U.S.- EU Air Transport Agreement. The French supported the European Parliament legislation which includes aviation in the EU's CO2 cap and trade system (the Emissions Trading Scheme -- ETS). In the absence of progress towards a global CO2 emissions target (including through the UN Framework Convention on Climate Change), the EU ETS scheme will take effect in 2012 for U.S. carriers flying to and from Europe. However, the French are open to a greater role for the International Civil Aviation Organization (ICAO) in EU ETS implementation. France

also wants full access to cross-border mergers, and cabotage in the second stage of the U.S. Air Transportation Agreement.

¶9. (U) On maritime transport, Dominique Bussereau recently traveled to Hong Kong, China and South Korea with French port directors and Prime Minister Fillon was in North Africa to attract foreign investment in French ports. President Sarkozy's reforms will reduce state control of the waterfronts and privatize container handling. Bussereau and his Spanish counterpart signed an agreement to invest 30 million euros in the next five years to develop sea motorways to transport freight carrying trucks in an effort to reduce road congestion. Another top French priority is international cooperation on the fight against maritime piracy. They welcome the U.S. sense of urgency in tackling the problem of piracy at sea.

¶10. (SBU) On road transportation which represents 68 percent of public transport investment, new consumer incentives are planned to boost the GOF's existing "bonus-malus" or "fee-bate" system of tax incentives that favor the purchase of low-emission vehicles. President Sarkozy announced in February that the GOF will provide rebates of up to one thousand euros for car buyers who scrap older, high CO2 emission vehicles. It will mobilize 400 million euros of public financing over the next three years exclusively for R and D on zero-emission vehicles. France also aims to include 7 percent biofuel at the pumps by 2010, beyond the European targets. The state will support some pilot projects for second generation biofuel production (Reftel).

YOUR VISIT

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¶11. (SBU) Your visit and pursuit of France's cooperation will be taken as a reassuring sign that the solid economic partnership between the two countries will continue. Your European tour is also a signal that France is not the only competitive player. Your French counterparts will welcome the opportunity to learn more of the new Administration's approach to a nation-wide rail network and the long-term financial investment it intends to make. The French are anxious to understand who will regulate inter- and intra-state corridors and be the interlocutor for foreign firms. They are also interested in the dynamics of the decision making process for project selection. Finally, given France's experience in innovative cross-subsidization systems for financing transportation infrastructure (Public-Private Partnerships PPP), this will be an excellent chance to discuss lessons learned and the prospects of transatlantic partnerships.

Bio of Dominique Bussereau

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¶12. (SBU) Dominique Bussereau, born in 1952, is the son of a railway worker. After holding staff positions in several Ministries, he worked for the commercial department of the SNCF. Since 2002, he has held ministerial level appointments in transportation, budget, and agriculture, and in 2007 was appointed for a second time State Secretary for Transportation. Bussereau is close to former French Prime Minister Jean-Pierre Raffarin who currently chairs a think tank for which Bussereau is Secretary General. They have long-standing political ties to President Sarkozy's UMP party and to the western coastal region of Poitou-Charente. Bussereau is Chairman of the General Council of Charente-Maritime department whose economic livelihood is based on maritime industry and is home to the French engineering giant Alstom which manufactures TGV cars and metro trains. Bussereau has an active domestic record in introducing an eco-tax, based on 'user pays' and 'polluter pays' principles. The tax is part of the "Eurovignette" Directive that allows EU Member States to charge heavy goods vehicles for wear on the road network and environmental costs with the ultimate aim of shifting freight away from roads onto less-polluting modes of transport (rail and waterways). He understands some English but prefers to use an interpreter.

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